VESTED EQUITY COOPERATIVE

Foundational Charter

A framework for democratic worker ownership

Version 2.0

Preamble

The Vested Equity Cooperative (VEC) is founded on the principle that those who contribute their labor to an enterprise deserve a meaningful stake in its ownership, governance, and prosperity. This charter establishes a framework that rewards commitment, aligns incentives between workers and the organization, and distributes both power and profit in proportion to genuine participation.

The VEC model is designed to scale — from a small founding team to a large mature organization — without losing its democratic character or requiring fundamental restructuring. Governance adapts to size. Ownership is earned, not purchased. Leadership is accountable to those with the deepest institutional investment.

Article I — Membership

Section 1.1 — Classes of Membership

The cooperative recognizes three classes of worker: pre-vesting employees, partially vested members, and fully vested members. All workers, whether salaried or hourly, are subject to the same graduated vesting schedule measured in equivalent full-time effort. Rights and profit share entitlements increase at each vesting threshold.

Section 1.2 — Pre-Vesting Employees

Any individual employed by the cooperative begins as a pre-vesting employee. During this period the worker:

- Receives their full agreed salary or hourly wage
- Accumulates vesting credit toward full membership

- Holds no profit share and no governance vote until the first vesting threshold is reached
- May participate in cooperative culture, training, and advisory forums at the board's discretion

Section 1.3 — Vesting Standard

Vesting is measured in full-time equivalent (FTE) hours, applying a single graduated schedule to all workers regardless of employment type. There are two vesting thresholds:

Employment type	Vesting requirement
Salaried	50% vest: 18 continuous months of employment. 100% vest: 3 continuous calendar years of employment
Hourly	50% vest: 3,120 cumulative hours (FTE equivalent of 18 months). 100% vest: 6,240 cumulative hours (FTE equivalent of 3 years at 2,080 hrs/year)
Mixed / part-time	Cumulative hours tracked from first day of employment; hours bank continuously toward both the 3,120-hour and 6,240-hour thresholds

Paid leave counts toward cumulative hours. Unpaid leave pauses accumulation but does not reset it. Hours records must be maintained from the first day of employment for all workers.

Section 1.3a — Partial Vesting Rights

Upon reaching the first vesting threshold (18 months or 3,120 FTE hours), a worker becomes a partially vested member. Partial vesting is strictly economic in nature. A partially vested member receives:

- 50% of their proportional annual profit share, calculated using the same salary-proportional formula as full members but applied at half the rate
- The right to retain partial profit share in their individual capital account at the same performance-linked interest rate available to full members

A partially vested member holds no governance vote, no advisory vote, and is not eligible for the senior electorate. They continue to accumulate hours toward full vesting. Upon reaching the full vesting threshold (3 years or 6,240 FTE hours), their profit share automatically increases to 100% of their proportional share and all full member rights take effect. No separate application or approval is required at either vesting threshold — vesting is automatic upon reaching the applicable hours or calendar threshold.

Section 1.4 — Vested Member Rights

Upon reaching the vesting threshold, a worker becomes a vested member and receives:

- A proportional share of annual distributable surplus
- The right to retain profit share earnings within the cooperative at performance-linked interest
- An advisory voice in cooperative policy discussions

- Eligibility to accumulate seniority toward the senior electorate

Article II — Profit Distribution

Section 2.1 — Mandatory Reserve Allocations

Before any surplus is distributed, the following allocations are made from gross annual profit:

- Statutory reserve: a minimum of 10% of annual surplus, held as indivisible collective capital
- Community and social fund: a minimum of 5% directed to charitable, educational, or community purposes as approved by the board
- Capital reinvestment: an amount determined annually by the board for operational and strategic investment

The remainder constitutes the distributable surplus available to vested members.

Section 2.2 — Individual Profit Share Formula

Distributable surplus is allocated to each vested member in proportion to their annual earnings relative to total vested payroll. The formula is identical for salaried and hourly members:

Member share = (Member annual earnings ÷ Total vested payroll) × Distributable surplus

For hourly members, annual earnings means actual wages paid during the fiscal year (hours worked multiplied by hourly rate). Pre-vesting employees are excluded from the distributable surplus entirely and receive no share. Partially vested members are included in the vested payroll total for calculation purposes but receive only 50% of their calculated proportional share; the remaining 50% is redistributed proportionally among all full members.

Section 2.3 — Annual Distribution Election

Following the close of each fiscal year, the board calculates and publishes each vested member's profit share. Each member then makes an annual election within 30 days of notification:

- Pay out: receive the full calculated share as a cash payment, or
- Retain: leave some or all of the share in the cooperative's internal capital account

Retained earnings are held in the member's individual capital account and accrue interest annually at a rate tied to company performance, as defined in Section 2.4. Members may elect a partial payout and retain the remainder.

Section 2.4 — Performance-Linked Interest Rate

The interest rate applied to retained member capital is set by the board each year based on the cooperative's financial performance. The rate is announced alongside the annual profit share calculation:

Company performance	Interest rate range
Exceptional year (top quartile profitability)	8 – 12%
Strong year	5 – 8%
Moderate year	2 – 5%
Break-even or loss year	0 – 2% (board discretion)

The board may not set a negative interest rate. In a loss year, retained capital is preserved at its nominal value unless the cooperative faces insolvency, in which case the provisions of Article VI apply.

Section 2.5 — Capital Account on Exit

When a vested member leaves the cooperative, their accumulated capital account balance is paid out within 90 days of departure. The cooperative may arrange a payment schedule for large balances, provided the schedule does not exceed 36 months and interest continues to accrue during repayment.

Article III — Governance and Board Elections

Section 3.1 — Governance Scaling Rule

The cooperative operates under one of two governance structures depending on the size of the senior electorate. The applicable structure is determined at the start of each fiscal year:

Senior electorate size	Governance model
Fewer than 20 seniors	Full Council — all seniors act collectively as the governing body
20 or more seniors	Board of Stewards — seniors elect a smaller representative board

Section 3.2 — The Senior Electorate

A vested member joins the senior electorate when they meet either of the following thresholds:

- 10 or more years of cumulative FTE-equivalent tenure (20,800 cumulative hours for hourly members), or
- Membership in the top 10% of all vested members ranked by cumulative tenure, whichever threshold is reached first

Senior electorate members hold the exclusive right to elect and remove the Board of Stewards.

Section 3.3 — Board Composition and Size

The Board of Stewards is sized according to the number of senior electorate members at the time of each election:

Senior electorate size	Board seats (N)
20 – 50 seniors	7 stewards
51 – 100 seniors	9 stewards
101+ seniors	11 stewards (permanent maximum)

All board seat counts are odd to prevent deadlock. The number of seats is fixed at the time of election and does not change mid-term even if the electorate size crosses a threshold.

Section 3.4 — Automatic Nomination

The N most senior members by cumulative FTE hours are automatically nominated to fill the N board seats. Automatic nomination is a duty of senior membership, not merely an honor.

Ties at the Nth position

If two or more members share identical cumulative tenure at the Nth nominee position, all tied members are included on the ballot as nominees. The board seat count does not change. The tie is resolved by the approval vote itself: whichever tied candidate receives the highest approval count from the senior electorate wins the final seat. If the approval vote does not break the tie — that is, two or more tied candidates receive identical approval counts for the final seat — a runoff approval vote is held immediately among only those still-tied candidates. Each senior electorate member present may approve as many runoff candidates as they wish. The candidate with the highest approval count in the runoff wins the seat. If the runoff itself produces a tie, the seat is awarded to the candidate with the greater cumulative FTE hours, returning to the original seniority criterion as the tiebreaker of last resort.

Declining automatic nomination

An automatic nominee who does not wish to serve must, within 14 days of receiving written notification of their nomination:

- Submit a written declaration of declination to the sitting board or election administrator, and
- Designate a replacement nominee from within the senior electorate

A nominee may not decline without naming a replacement. The designated replacement is added to the nominee pool and stands for election alongside all other nominees on equal footing. The declining member's automatic nomination is extinguished; they do not appear on the ballot.

Replacement nominee rejected by the electorate

If a replacement nominee designated by a declining automatic nominee fails to secure election, the seat does not revert to the declining senior. Instead:

- The seat is declared temporarily vacant following the election
- The senior electorate holds a supplementary approval vote within 30 days, with any willing senior electorate member eligible to stand
- The candidate receiving the most approvals in the supplementary vote fills the vacant seat for the remainder of the term

If the supplementary vote produces no candidate with at least one approval from a majority of participating seniors, the seat remains vacant and the board operates with one fewer member until the next general election.

Section 3.5 — The Election Process

Step 1 — Election notice

No later than 60 days before a scheduled board election, the outgoing board or election administrator issues a written election notice to all senior electorate members. The notice includes:

- The date, time, and location of the election meeting
- The number of board seats to be filled
- The list of automatic nominees by name and cumulative tenure
- The 14-day window for nominees to decline and designate replacements
- Instructions for any senior electorate member wishing to stand as a replacement nominee

Step 2 — Nominee confirmation

Within 14 days of the election notice, the nominee list is finalized. The election administrator collects declinations and replacement designations, resolves ties, and publishes the confirmed ballot of nominees to all senior electorate members at least 30 days before the election meeting.

Step 3 — Q&A session

At the election meeting, before ballots are distributed, each nominee is given equal time to address the senior electorate. The session is structured as follows:

Component	Format
Opening statement	Up to 3 minutes per nominee, in random order drawn at the start of the session
Questions from the electorate	Each senior may submit one written question; the election administrator selects questions for time; nominees respond briefly
Closing statement	Up to 1 minute per nominee

Nominees who cannot attend in person may submit a written statement to be read aloud by the election administrator and may designate a proxy for the Q&A session. Absence from the Q&A does not disqualify a nominee.

Step 4 — Voting

Immediately following the Q&A session, the election proceeds by secret written ballot using approval voting:

- Each senior electorate member receives one ballot listing all confirmed nominees
- Each voter may mark approval for as many nominees as they wish, including all or none
- Ballots are collected and counted by the election administrator and at least two scrutineers, selected by lottery from non-nominee senior electorate members at the start of the meeting
- The N nominees with the highest approval totals are elected to the board
- In the event of a tie for the final seat, a runoff approval vote is held immediately among only the tied nominees; if the runoff itself ties, the seat is awarded to the candidate with the greater cumulative FTE hours

Quorum

An election is valid only if a simple majority (more than 50%) of all senior electorate members participate. Members who cannot attend in person may cast a sealed written ballot delivered to the election administrator before the meeting begins. Remote or digital voting is not permitted; only in-person attendance and pre-submitted sealed ballots count toward quorum and the vote total.

If quorum is not reached, the election is adjourned and rescheduled within 21 days. The rescheduled election requires the same quorum threshold. If quorum is again not reached, the election proceeds with whatever participation is achieved, and the result is binding.

Step 5 — Results and certification

Results are announced publicly to all senior electorate members immediately after counting. The election administrator prepares a written certification of results within 5 business days, recording the total number of eligible voters, the number participating, each nominee's approval count, and the names of the elected stewards. The certification is filed in the cooperative's permanent records and made available to any vested member upon request.

Section 3.6 — Board Terms

All board seats are contested simultaneously every three years. There are no staggered terms. A newly formed cooperative holds its first board election once the senior electorate reaches 20 members, or at the end of year five of operation, whichever comes first. Until the first formal election, the founding senior members act collectively as a provisional Full Council.

Section 3.7 — Mid-Term Vacancies

A board seat becomes vacant upon the resignation, death, removal, or loss of senior electorate status of a sitting steward. Vacancies are filled as follows:

- The most senior non-board member of the senior electorate is automatically appointed as interim steward for the remainder of the vacant term
- If that individual declines, the next most senior non-board senior is offered the interim appointment, continuing in order of seniority until the seat is filled

- An interim steward holds all the powers and receives all the compensation of a full steward
- An interim appointment does not constitute a full term for any future term-limit purposes

Section 3.8 — Removal of a Board Member

Any steward may be removed before the end of their term by a simple majority vote of the full senior electorate. A removal vote may be initiated by:

- A written petition signed by 15% or more of the senior electorate, or
- A formal motion passed at any quarterly or emergency governance meeting

Upon initiation of a removal vote, the subject steward is notified in writing and may address the senior electorate before the vote is held. The removal vote must occur within 21 days of initiation. A removed steward is immediately succeeded by an interim appointee under the provisions of Section 3.7.

Section 3.9 — Board Compensation

Each steward receives a salary uplift of 15% on top of their existing cooperative earnings for the duration of their board service. This uplift is included in annualized earnings for profit share calculation purposes. The uplift percentage may be adjusted by a vote of the full senior electorate but may not fall below 10% or exceed 25%.

Section 3.10 — Powers of the Board of Stewards

The Board of Stewards holds the following powers exclusively:

- Recruiting, selecting, appointing, and dismissing the Chief Executive Officer
- Approving the annual profit distribution calculation and interest rate for retained earnings
- Setting and revising the pay ratio ceiling between the highest and lowest earner in the cooperative
- Approving capital expenditures and contracts above a threshold set in the cooperative's operating bylaws
- Reviewing and approving the CEO's quarterly report
- Calling emergency governance sessions

Section 3.11 — Reserved Powers of All Vested Members

The following decisions require a vote of all vested members and may not be delegated to the Board of Stewards under any circumstances:

- Amendments to this charter (two-thirds majority required)
- Approval of mergers, acquisitions, or strategic partnerships (two-thirds majority required)
- Dissolution of the cooperative (two-thirds majority required)

The board must provide all vested members with at least 30 days written notice and full documentation before any reserved-power vote is held.

Section 3.12 — Governance Meetings

The Board of Stewards meets quarterly. Standard quarterly meetings follow a standing agenda:

- Financial review and CEO report
- Membership changes: new vests, exits, hours tracking updates
- Profit retention rate review
- Strategic and operational decisions requiring board approval

Emergency sessions may be called by the CEO, any two stewards, or a petition signed by 15% or more of all vested members. Emergency sessions are not limited to the standing agenda.

Section 3.13 — Election Timeline Summary

The following table summarizes the standard election timeline for reference:

Timing	Action	Responsible party
Day −60	Election notice issued to all senior electorate members	Outgoing board / election administrator
Days −60 to −46	14-day window for nominees to decline and name replacements	Nominees
Day −30	Final confirmed ballot published to all senior electorate members	Election administrator
Election day	Q&A session held	All nominees and senior electorate
Election day	Secret written ballot conducted; results announced	Election administrator and scrutineers
Day +5	Written certification of results filed	Election administrator
Day +7	New board convenes for first meeting	Incoming board and outgoing board

Article IV — Chief Executive Officer

Section 4.1 — Role

The Chief Executive Officer (CEO) is responsible for the day-to-day management and operational leadership of the cooperative. The CEO implements board strategy, manages staff, and represents the cooperative externally. The CEO is accountable to the Board of Stewards and reports to the board quarterly.

Section 4.2 — Selection

The CEO is recruited and selected by the Board of Stewards. The board may appoint a CEO from within the cooperative's membership or from outside. A nominating committee of three

board members manages the search process. The full board ratifies the appointment by simple majority.

Section 4.3 — Term and Renewal

The CEO serves a three-year renewable term. At the end of each term, the board conducts a formal performance review and votes on renewal. There is no limit on the number of terms a CEO may serve.

Section 4.4 — Dismissal

The Board of Stewards may dismiss the CEO at any time by simple majority vote. In cases of gross misconduct or breach of fiduciary duty, the board may suspend the CEO immediately pending a formal vote, which must occur within 14 days of suspension.

Section 4.5 — Pay Ratio

The CEO's total compensation, including any bonuses or incentive pay, may not exceed the pay ratio ceiling set by the Board of Stewards. The pay ratio ceiling defines the maximum multiple of the lowest earner in the cooperative that the highest-paid individual may receive. The board sets and publishes this ratio annually.

Article V — Amendment and Dissolution

Section 5.1 — Charter Amendment

This charter may be amended by a two-thirds majority vote of all vested members. The Board of Stewards must provide all vested members with the proposed amendment text and supporting rationale at least 30 days before the vote. Amendments take effect immediately upon ratification unless the amendment itself specifies a future effective date.

Section 5.2 — Dissolution

The cooperative may be dissolved by a two-thirds majority vote of all vested members. Upon dissolution, after all debts and obligations are settled, remaining assets are distributed to vested members in proportion to their accumulated capital account balances. No assets may be distributed to non-members or external parties except as required to satisfy legal obligations.

Article VI — General Provisions

Section 6.1 — Non-Discrimination

Membership in the cooperative is open to any worker who meets the vesting standard regardless of age, race, gender, religion, nationality, disability, sexual orientation, or political affiliation.

Section 6.2 — Dispute Resolution

Disputes between members, or between a member and the board, shall first be submitted to a mediation process administered by a panel of three vested members selected by lottery. If mediation fails, disputes proceed to binding arbitration under the rules of a mutually agreed arbitration body. Litigation in civil courts is a remedy of last resort.

Section 6.3 — Records

The cooperative shall maintain accurate and complete records of all member hours from the first day of each worker's employment, all capital account balances, all board meeting minutes, all election certifications, and all profit distribution calculations. These records shall be available to any vested member upon request within 14 business days.

Article VII — Outside Capital and Investor Shares

Section 7.1 — Guiding Principle

The cooperative may raise capital from outside investors through the issuance of investor shares. Outside capital is a tool for growth and resilience, not a transfer of control. Vested members must at all times retain majority ownership and exclusive governance authority over the cooperative. No outside investor, regardless of the size of their shareholding, acquires any right to vote on cooperative decisions or to participate in governance.

Section 7.2 — The 49% Hard Cap

The total cumulative ownership held by all outside investors combined may never exceed 49% of the total issued share capital of the cooperative. Vested members, through the cooperative entity itself, must at all times hold a minimum of 51% of total issued shares.

This cap is cumulative and perpetual. It applies across all funding rounds and all classes of investor share. Each new issuance of investor shares must be assessed against the total outstanding investor ownership at the time of issuance. The Board of Stewards must calculate and publish the current investor ownership percentage before approving any new round. No issuance that would cause cumulative outside ownership to reach or exceed 49% may proceed, regardless of prior approvals or investor agreements.

Section 7.3 — Approval to Issue Outside Shares

Each funding round requiring the issuance of new investor shares requires dual approval:

- A resolution passed by the Board of Stewards, and
- Ratification by a two-thirds majority vote of all vested members

The board must provide all vested members with full disclosure of the proposed round at least 30 days before the ratification vote. Disclosure must include the number of shares to be issued, the proposed price per share or valuation basis, the resulting investor ownership percentage after issuance, the intended use of proceeds, and the proposed terms of any dividend or return

arrangement. A vested member ratification vote may not be waived or delegated to the board under any circumstances.

Section 7.4 — Investor Rights and Restrictions

Outside investors hold non-voting shares. Their rights are strictly economic and are enumerated as follows:

- **Dividends:** the right to receive dividends if and when declared by the Board of Stewards
- **Capital gains:** the right to any appreciation in share value if and when shares are sold or redeemed
- **Dissolution proceeds:** a proportional claim on remaining assets after debts and member capital accounts are settled, in the event of cooperative dissolution

Outside investors have no right to vote on any cooperative decision, including but not limited to board elections, charter amendments, CEO selection, profit distribution, mergers, acquisitions, or dissolution. No investor agreement, side letter, or shareholder rights arrangement may grant governance rights to an outside investor. Any such agreement is void and unenforceable to the extent it conflicts with this charter.

Section 7.5 — Board Authority Over Investor Returns

The Board of Stewards has sole authority over all decisions relating to investor economic returns, including:

- **Dividends:** whether to declare a dividend, the amount per share, and the timing of payment. The board is under no obligation to declare dividends in any given period.
- **Share buybacks:** whether to repurchase outstanding investor shares, at what price, and on what schedule. Buybacks reduce the total investor ownership percentage and may be used strategically to bring cumulative outside ownership further below the 49% ceiling.
- **Capital gain events:** the terms and timing of any liquidity event that allows investors to realize capital gains on their shares, including secondary market arrangements or redemption programs.

The board must balance investor return decisions against the cooperative's financial health, member profit share obligations, and long-term capital needs. Investor return payments may not be made if doing so would impair the cooperative's ability to meet its obligations to vested members or its statutory reserve requirements under Article II.

Section 7.6 — Investor Reporting

The Board of Stewards shall provide outside investors with an annual financial report within 90 days of the close of each fiscal year. The report must include audited financial statements, a summary of dividend and buyback decisions made during the year, the current cumulative investor ownership percentage, and any material changes to the cooperative's financial position. Investors are entitled to this report as a condition of their shareholding. They are not entitled to attend governance meetings, access member capital account records, or receive any information beyond what is contained in the annual report unless the board elects to provide additional disclosure.

Section 7.7 — Cooperative Bonds

The Board of Stewards may issue cooperative bonds as a debt financing instrument. Bonds represent a loan to the cooperative and confer no ownership stake and no governance rights on bondholders. They are not subject to the 49% investor ownership cap, as they do not constitute equity. The cooperative's bond obligations are senior to member capital account balances in the event of dissolution but subordinate to all secured creditors and statutory obligations.

The board has full authority to determine the terms of each bond issuance, including:

- **Interest rate:** fixed or variable, set at the board's discretion to reflect market conditions, the cooperative's creditworthiness, and the term of the bond
- **Maturity:** the repayment date or schedule, which may range from short-term notes to long-term bonds
- **Total issuance size:** the aggregate face value of bonds to be issued in a given offering
- **Security:** whether bonds are secured against cooperative assets or issued as unsecured obligations

Bond issuances do not require a vested member ratification vote. However, the board must disclose all outstanding bond obligations in the annual financial report provided to vested members and, where applicable, to outside investors under Section 7.6. The total value of outstanding bonds must not exceed a debt ceiling set by the board in the cooperative's operating bylaws, which may be revised by board resolution at any time.

Section 7.8 — Initial Public Offering

The cooperative may pursue a public listing of non-voting investor shares on a recognized stock exchange. A public listing does not alter the cooperative's governance structure, ownership principles, or the rights of vested members in any respect. All provisions of this Article VII apply to publicly listed shares in full.

Approval requirements

An IPO is treated as a share issuance under Section 7.3 and requires the same dual approval: a board resolution and a two-thirds majority vote of all vested members. Given the structural significance of a public listing, the board must additionally provide vested members with an independent assessment of the proposed listing's implications for cooperative governance, member profit share, and long-term ownership structure, prepared by a qualified external advisor, at least 45 days before the ratification vote.

Cap enforcement on public markets

The 49% hard cap presents unique enforcement challenges in a public market where shares trade freely between investors. The cooperative must address this through the following structural mechanisms, which must be established before any shares are listed:

- **Capped share class:** the total number of publicly listed shares must be set at issuance such that, even if all listed shares are held by outside investors, cumulative outside ownership cannot exceed 49%. No additional shares beyond this ceiling may be issued without a new member ratification vote
- **Charter disclosure in prospectus:** the IPO prospectus must prominently disclose that listed shares are non-voting, that the 49% cap is a permanent structural feature of the cooperative charter, and that no future action of the board or any investor group can grant governance rights to outside shareholders

- **Buyback trigger:** if the board determines that secondary market activity has caused or risks causing cumulative outside ownership to approach 49%, the board must initiate a share buyback program sufficient to restore a meaningful buffer below the cap. The board must report any such action to all vested members within 30 days

Non-conversion clause

A public listing does not convert the cooperative into a conventional corporation. The cooperative retains its legal structure, its membership vesting system, its profit share obligations to vested members, and all governance provisions of this charter. No term of any underwriting agreement, exchange listing requirement, or investor relations arrangement may override, suspend, or conflict with this charter. In the event of any conflict between a public listing obligation and this charter, the charter prevails and the board must seek a resolution that preserves charter compliance, including delisting if necessary.

Adopted by the founding members of the Vested Equity Cooperative
This charter supersedes all prior agreements and understandings.